

Financial Statements

City of Ithaca

**Ithaca, Michigan
June 30, 2005**



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ITHACA	County GRATIOT
Audit Date 6/30/05	Opinion Date 8/24/05	Date Accountant Report Submitted to State: 10/24/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

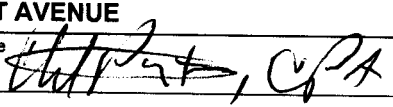
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE & CO., PC, CPA'S			
Street Address 308 GRATIOT AVENUE		City ALMA	State MI
Accountant Signature 		ZIP 48801	Date 10/24/05

City of Ithaca
June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Ithaca
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-VII, and budgetary comparison information on pages 32-38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co., P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

August 24, 2005

MANAGEMENT'S DISCUSSION and ANALYSIS

Management Discussion and Analysis

As management of the City of Ithaca (the "City"), we offer readers of the City's financial statements, this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2005. The management's discussion and analysis (MD&A) is intended to assist the reader in focusing on significant financial issues and provide an overview of the City's financial activity. The City encourages readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

Financial Highlights

- The net assets of the City are the amount by which the City's assets exceeded its liabilities. At June 30, 2005, net assets of the primary government totaled \$9,070,713. The unrestricted portion of this amount, \$3,116,194 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,995,777. This increase resulted from an increase in net assets of the business activities of \$1,909,321 and an increase in net assets of governmental activities by \$86,456. The increase in Business-Type Activities net assets was mainly from capital contributions from the State of Michigan for a major water main project.
- At June 30, 2005, the City's governmental funds reported combined ending fund balances of \$1,126,755. This is a decrease of \$13,228 from the prior year. This decrease is in part, due to the cuts in revenue sharing from the State of Michigan. Of the total fund balance for governmental funds \$1,103,856 is available for spending at the government's discretion (unreserved fund balance).
- The City's long-term debt consisted of General Obligation Bonds and Customer Deposits in the Business Activities and Debt for a Fire Truck and Rescue Vehicle in the non-major governmental activities.
- A schedule of the City's long-term obligations can be found in the notes to financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government (such as public works, administration, parks, and cemetery), public safety, streets, library, and economic development. The major business-type activities of the City include the Water Supply System and Sewage Disposal System.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority for which the City is financially accountable. The Downtown Development Authority is a separate authority and financial information for this is reported separately from the financial information presented for the primary government under the heading Component Unit.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as set by the State and Federal Governments. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on inflows and outflows of spendable resources, as well as on the availability of the balances of such resources at the end of the fiscal year. This information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, you will better understand the long-term impact of the government's financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seven major and eleven non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and all major special revenue funds. Data from the non-major governmental funds are combined in a single column presentation on the governmental funds statements. Individual fund data for each of these non-major governmental funds is provided in the *combining statements* section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund in order to demonstrate compliance with this budget. The general fund is the chief operating fund of the City and accounts for all revenue and expenditures that are not properly accounted for elsewhere in the City. In addition, budget comparison statements have also been provided for the other major funds. These can be found in the required supplementary information section of this report.

Proprietary funds. The City maintains two different types of proprietary funds. Enterprise funds are used to account for the results of operations that provide a service to the citizens that are financed primarily by a user charge for the provision of that service. These funds are presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water Supply System and Sewage Disposal System. The unrestricted net assets of these systems at the fiscal year end were \$1,251,683. The total growth of these funds was \$1,909,321. As discussed in the business-type activity section, this increase comes from capital contributions and increased water and sewer revenues.

Internal service funds are set up to account for materials and services provided by designated departments, on a fee basis, to other internal departments within the City. The City uses internal service funds to account for its equipment and material usage. The services of the Equipment and Material predominantly benefit governmental rather than business-type functions, and have been included in their entirety within *governmental activities* in the government-wide financial statements.

Fiduciary funds. Fiduciary funds, also known as Trust and Agency Funds, are used to account for assets held in trust or as agent by the City, for the benefit of others. Fiduciary funds are *not* reflected in the government-wide financial statements because the assets of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City uses fiduciary funds to account for its Agency funds (i.e. property taxes collected for the County and School).

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information as required by GASB statement 34 regarding the City's budgetary comparison of the general fund and six major special revenue funds. This supplementary information is contained behind its own tab following the footnotes to financial statements

Government-wide Financial Analysis. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The overall financial position of the City showed a small decrease of \$13,228. Despite the City's conservative nature in budgeting, the decrease in State Revenue sharing and State-wide declining economy along with increasing natural gas and fuel prices led to this shortfall.

Asset and Liability Analysis. The total assets of the City as of June 30, 2005 were \$9,676,581. Of this amount, capital assets accounted for \$5,927,105. The total liabilities of the City as of June 30, 2005 were \$498,745. Of this amount, long-term liabilities (due in more than one year) accounted for \$158,842. The remaining short-term liability amount represents the final payment of the General Obligation bonds.

The total net assets of the City at June 30, 2005 were \$9,177,836. \$5,727,105 is invested in capital assets net of related debt. \$204,515 is restricted for Streets and highways while \$22,899 is restricted for other purposes. \$3,223,317 are unrestricted assets.

The largest component of the City's net assets reflects its investment in capital assets (ie. Land, buildings, equipment, water and sewer systems, etc) less any related debt outstanding that was needed to acquire or construct the asset. Unrestricted net assets are the next largest. These represent resources that may be used at the City's discretion, but often have limitations based upon set policies. The remaining, restricted net assets, are subject to external restrictions such as bond covenants, the City Charter, State of Michigan legislation, or Constitutional provisions.

Program Revenue Analysis. There are a variety of accounts that are considered program revenues as set by the State of Michigan. They include, but are not limited to, building permits, contributions from Townships for the operation of the fire and rescue departments, cemetery lot sales and grave openings, and fines levied for the operation of the library (i.e. penal and book fines). Property taxes are considered general revenue.

Transfers. There were transfers made from the general fund to the following funds: Fire Department, First Responders, Cemetery, and Material funds for operating purposes.

Long-Term Debt Activity. The long-term debt of the City includes the general obligation bonds, fire truck debt, water/sewer customer utility deposits and compensated absences of employees.

General Fund Budgetary Highlights.

The major changes from the City's originally adopted budget and final budget for 2005 were as follows:

- The purchase of a new patrol vehicle, which was held over from the prior year.
- The purchase of a new vehicle for administration use. The old vehicle is in use primarily by the building department which formally used a personal vehicle.
- Additional payroll expenses were incurred with the hiring of a new full-time City Treasurer (the former was part-time) and a new Downtown Development Director, and replacement of the Library Director.

Economic Factors and Next Year's Budgets and Rates.

The General Operating Fund of the City is primarily reliant on City property tax collections and distributions of State shared taxes to support general City service delivery. In the year ended June 30, 2005, more than 50% of all general fund revenues were derived from these local and State tax levies. Both the State of Michigan and City of Ithaca suffer from the economic weakness and high rising fuel prices. The Nations state of economy, with the national defense spending, its struggle to rebuild after the recent hurricanes; social security and rising healthcare concerns show slow signs of recovery in the next year.

In preparing the 2005-2006 fiscal year budget (beginning July 1, 2005) the City remained cautious in its figures. The State has taken the position of no further cuts in revenue sharing for this year, but offered no increase in last year's amount received. The effect of no increase is treated as a cut due to the increase in the cost of living. Michigan's tourism will be affected by the rising gas prices and ultimately the tax levies received on roads, and sales tax will affect the local community. In preparation of these events, the City prepared a conservative budget and will evaluate funds over the year when making purchasing decisions. The City also participates and will continue to do equipment and service sharing with neighboring communities, in efforts to reduce costs.

The City has taken this approach to budgeting over the past years and has resulted in a municipality that can provide its citizens with quality services and security.

Requests for Information

The financial report is designated to provide a general overview of the City of Ithaca's finances for all those with an interest in the government's financial status. Questions concerning any of the information provided in this financial report, or requests for additional financial information, should be addressed to:

City of Ithaca
Barbara Fandell, City Treasurer
129 W. Emerson Street
Ithaca, Michigan 48847

Contact telephone number: (989) 875-3200.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

City of Ithaca
Government Wide Statement of Net Assets
June 30, 2005

	PRIMARY GOVERNMENT			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Cash and cash equivalents	\$1,193,409	\$907,846	\$2,101,255	\$107,123
Property taxes receivable	756,521	203,662	960,183	-
Other receivables - net	49,105	132,965	182,070	-
Due from other governments	182,392	-	182,392	-
Internal balances - net	1,000	-	1,000	-
Inventories	-	37,153	37,153	-
Notes receivable - net	178,300	-	178,300	-
Capital assets - net	1,603,280	4,323,825	5,927,105	-
Total assets	<u>3,964,007</u>	<u>5,605,451</u>	<u>9,569,458</u>	<u>107,123</u>
LIABILITIES				
Accounts payable	80,488	20,819	101,307	-
Accrued and other liabilities	26,662	4,774	31,436	-
Noncurrent liabilities				
Due within one year	14,835	192,325	207,160	-
Due in more than one year	146,817	12,025	158,842	-
Total liabilities	<u>268,802</u>	<u>229,943</u>	<u>498,745</u>	<u>-</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,603,280	4,123,825	5,727,105	-
Restricted for				
Streets and highways	204,515	-	204,515	-
Other purposes	22,899	-	22,899	-
Unrestricted	1,864,511	1,251,683	3,116,194	107,123
Total net assets	<u>\$3,695,205</u>	<u>\$5,375,508</u>	<u>\$9,070,713</u>	<u>\$107,123</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Government Wide Statement of Activities
For The Year Ended June 30, 2005

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Component Units
				Governmental Activities	Business-Type Activities	
Primary Government						
General government	\$716,760	\$59,409	-	(\$657,351)	-	-
Public safety	498,659	105,466	\$585	(392,608)	-	-
Public works	374,183	-	286,996	(87,187)	-	-
Recreation and cultural	332,046	2,251	134,426	(195,369)	-	-
Interest on long-term debt	3,470	-	-	(3,470)	-	-
Total governmental activities	1,925,118	167,126	422,007	(1,335,985)	-	-
Business type activities						
Water and Sewer	397,541	511,412	-	-	\$113,871	-
Total primary government	\$2,322,659	\$678,538	\$422,007	(1,335,985)	113,871	-
Component units						
Downtown development authority	\$42,136	-	-	-	-	(\$42,136)
General Revenues						
Property taxes				792,380	205,313	-
State-shared revenues				449,292	15,975	-
Unrestricted investment earnings				32,910	12,306	1,201
Transfers				-	-	-
Capital contributions				-	1,561,856	-
Miscellaneous				147,859	-	-
Total general revenues				1,422,441	1,795,450	1,201
Change in net assets				86,456	1,909,321	(40,935)
Net assets - July 1				3,608,749	3,466,187	148,058
Net assets - June 30				\$3,695,205	\$5,375,508	\$107,123

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

City of Ithaca
Governmental Funds Balance Sheet
June 30, 2005

ASSETS									
	General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$334,772	\$147,231	\$19,487	\$130,646	\$31,444	\$56,829	\$211,979	\$154,336	\$1,086,724
Accounts receivables - net	23,912	-	1,687	-	-	-	-	-	25,599
Notes receivable	-	-	-	-	178,300	-	-	-	178,300
Due from other funds	1,000	-	4,549	-	-	-	15,489	-	21,038
Due from other governments	60,172	35,287	9,945	3,781	-	2,357	-	862	112,404
Total assets	<u>\$419,856</u>	<u>\$182,518</u>	<u>\$35,668</u>	<u>\$134,427</u>	<u>\$209,744</u>	<u>\$59,186</u>	<u>\$227,468</u>	<u>\$155,198</u>	<u>\$1,424,065</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	\$48,817	\$2,537	\$5,686	\$4,073	-	\$7,311	-	\$4,471	\$72,895
Accrued liabilities	20,620	340	559	3,433	-	-	-	1,125	26,077
Due to other funds	-	4,549	-	-	-	-	-	15,489	20,038
Deferred revenue	-	-	-	-	\$178,300	-	-	-	178,300
Total liabilities	<u>69,437</u>	<u>7,426</u>	<u>6,245</u>	<u>7,506</u>	<u>178,300</u>	<u>7,311</u>	<u>-</u>	<u>21,085</u>	<u>297,310</u>
Fund balances									
Reserved for perpetual care	-	-	-	-	-	-	-	22,899	22,899
Unreserved, undesignated, reported in:									
General fund	350,419	-	-	-	-	-	-	-	350,419
Special revenue funds	-	175,092	29,423	126,921	31,444	51,875	\$227,468	111,214	753,437
Total fund balances	<u>350,419</u>	<u>175,092</u>	<u>29,423</u>	<u>126,921</u>	<u>31,444</u>	<u>51,875</u>	<u>227,468</u>	<u>134,113</u>	<u>1,126,755</u>
Total liabilities and fund balances	<u>\$419,856</u>	<u>\$182,518</u>	<u>\$35,668</u>	<u>\$134,427</u>	<u>\$209,744</u>	<u>\$59,186</u>	<u>\$227,468</u>	<u>\$155,198</u>	<u>\$1,424,065</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
To Net Assets of Governmental Activities on the Statement of Net Assets
For the Year Ended June 30, 2005

Total fund balance - governmental funds	\$1,126,755
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	3,466,757
Deduct: accumulated depreciation	(2,229,562)
Internal service funds are used by management to charge the cost of equipment and materials to individual funds.	
The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	488,098
Property tax revenue that was earned and accrued in the current period but not available is only recognized as revenues in the government wide financial statements .	756,521
Intergovernmental revenue revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	69,988
Deferred revenues reported in governmental funds balance sheet includes balance of loans receivable. The balance was deferred because funds were not available to pay for current-period expenditures.	178,300
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Notes payable	(61,588)
Deduct: Compensated absences	(100,064)
Net assets of governmental activities	<u>\$3,695,205</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2005

	General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
Revenues									
Taxes and penalties	\$784,974	-	-	-	-	-	-	-	\$784,974
Licenses and permits	40,463	-	-	-	-	-	-	-	40,463
State grants	379,304	\$225,525	\$61,471	\$7,558	-	-	-	\$585	674,443
Charges for services	-	-	-	2,251	-	\$77,928	-	46,484	126,663
Fines and forfeits	-	-	-	126,868	-	-	-	-	126,868
Interest and rentals	15,678	2,206	456	5,527	\$153	1,542	\$2,583	2,829	30,974
Other revenues	123,003	-	2,183	4,086	6,600	6,164	-	5,823	147,859
Total revenues	1,343,422	227,731	64,110	146,290	6,753	85,634	2,583	55,721	1,932,244
Expenditures									
Current									
General government	613,711	-	-	-	1,628	-	-	60,728	676,067
Public safety	317,567	-	-	-	-	100,673	-	43,499	461,739
Public works	61,008	157,885	155,290	-	-	-	-	-	374,183
Recreation and cultural	111,480	-	-	185,067	-	-	-	-	296,547
Other	641	-	-	-	-	-	-	-	641
Capital outlay	59,065	-	-	-	13,842	-	-	38,479	111,386
Debt service	-	-	-	-	-	-	-	16,909	16,909
Total expenditures	1,163,472	157,885	155,290	185,067	15,470	100,673	-	159,615	1,937,472
Excess of revenues over (under) expenditures	179,950	69,846	(91,180)	(38,777)	(8,717)	(15,039)	2,583	(103,894)	(5,228)
Other financing sources (uses)									
Transfers in	-	-	50,133	-	-	46,562	-	113,786	210,481
Transfers out	(94,440)	(50,133)	-	-	-	(25,000)	-	(48,908)	(218,481)
Total other financing sources (uses)	(94,440)	(50,133)	50,133	-	-	21,562	-	64,878	(8,000)
Excess of revenues and other sources over (under) expenditures and other uses	85,510	19,713	(41,047)	(38,777)	(8,717)	6,523	2,583	(39,016)	(13,228)
Fund Balance, July 1	264,909	155,379	70,470	165,698	40,161	45,352	224,885	173,129	1,139,983
Fund Balance, June 30	\$350,419	\$175,092	\$29,423	\$126,921	\$31,444	\$51,875	\$227,468	\$134,113	\$1,126,755

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds	(\$13,228)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	111,386
Deduct: depreciation expense	(141,999)
Disposal of fixed assets	(4,441)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year-end.	77,394
Internal service funds are used by management to charge the cost of certain activities, such as equipment rents and material usage, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	35,779
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	13,439
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in accrual for compensated absences	<u>8,126</u>
Change in net assets of governmental activities	<u><u>\$86,456</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Assets		
Current assets		
Cash and cash equivalents	\$907,846	\$106,685
Trade accounts receivable	132,965	23,506
Property taxes receivable	203,662	-
Due from other funds	-	-
Inventory of supplies, at cost	37,153	-
Total current assets	1,281,626	130,191
Capital assets		
Water and sewer system	6,153,451	-
Machinery and equipment	-	1,062,331
Less: accumulated depreciation	(1,829,626)	(696,246)
Net capital assets	4,323,825	366,085
Total assets	5,605,451	496,276
Liabilities		
Current liabilities		
Accounts payable	20,819	7,593
Accrued payroll and payroll taxes	4,774	585
Current portion of bonds	200,000	-
Less: deferred loss on refunding	(7,675)	-
Total current liabilities	217,918	8,178
Long-term liabilities		
Customer deposits	12,025	-
Net long-term liabilities	12,025	-
Total liabilities	229,943	8,178
Net assets		
Invested in capital assets, net of related debt	4,123,825	366,085
Unreserved	1,251,683	122,013
Total net assets	\$5,375,508	\$488,098

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Operating revenues		
Water and sewer sales	\$492,954	-
Penalties and interest charges	6,879	-
Installation and other charges	7,332	\$15,184
Service charges	4,247	229,733
Property taxes	205,313	-
Total operating revenues	<u>716,725</u>	<u>244,917</u>
Operating expenses		
Personal services	124,384	29,196
Contractual services	47,999	11,965
Utilities	1,671	7,187
Repairs and maintenance	10,163	26,637
Other supplies and expenses	81,458	88,754
Depreciation	101,849	55,850
Total operating expenses	<u>367,524</u>	<u>219,589</u>
Operating income (loss)	<u>349,201</u>	<u>25,328</u>
Nonoperating revenues (expenses)		
Interest revenue	12,306	1,936
Gain on sale of fixed assets		515
State sources	15,975	-
Interest expense	(30,017)	-
Total nonoperating revenues (expenses)	<u>(1,736)</u>	<u>2,451</u>
Income before contributions and transfers out	347,465	27,779
Capital contributions	1,561,856	-
Transfers	<u>-</u>	<u>8,000</u>
Change in net assets	1,909,321	35,779
Total net assets, as of July 1	<u>3,466,187</u>	<u>452,319</u>
Total net assets, as of June 30	<u><u>\$5,375,508</u></u>	<u><u>\$488,098</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Cash flows from operating activities		
Receipts from customers	\$494,612	\$221,411
Payments to suppliers / outsiders	(125,103)	(128,178)
Payments to employees	(122,376)	(28,611)
Internal activity - receipts from other funds	8,429	9,718
Other receipts - taxes	242,006	-
Net cash provided by operating activities	497,568	74,340
Cash flows from noncapital financing activities		
Transfers from other funds		8,000
Grants received	15,975	-
Net cash provided by noncapital financing activities	15,975	8,000
Cash flows from capital and related financing activities		
Purchases of capital assets	(29,352)	(71,120)
Principal and interest paid on capital debt	(219,668)	-
Net cash used in capital and related financing activities	(249,020)	(71,120)
Cash flows from investing activities		
Interest revenue	12,306	1,936
Net increase (decrease) in cash and cash equivalents	276,829	13,156
Cash and cash equivalents, July 1	631,017	93,529
Cash and cash equivalents, June 30	\$907,846	\$106,685
Reconciliation of operating income (loss) to net cash provided (used) by Operating Activities		
Operating income (loss)	\$349,201	\$25,328
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	101,849	55,850
Change in assets and liabilities		
Receivables - net	29,262	(13,788)
Inventories	(2,837)	-
Accounts and other payables	20,093	6,950
Net cash provided by operating activities	\$497,568	\$74,340

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Fiduciary Funds
Statement of Net Assets
June 30, 2005

	<u>Agency Fund</u>
Assets	
Cash and equivalents	<u>\$12,602</u>
Total assets	<u><u>\$12,602</u></u>
Liabilities	
Accounts payable	\$11,602
Due to other funds	<u>1,000</u>
Total liabilities	<u><u>\$12,602</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Net Assets - Component Units
June 30, 2005

	<u>Downtown Development Authority</u>
ASSETS	
Cash and cash equivalents	\$107,123
Capital assets - net	<u>-</u>
Total assets	<u>107,123</u>
LIABILITIES	-
NET ASSETS	
Invested in capital assets, net of related debt	-
Unrestricted	<u>107,123</u>
Total net assets	<u><u>\$107,123</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Statement of Activities - Component Units
For the Year Ended June 30, 2005

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	
Downtown Development Authority				
General government	\$42,136	-	-	(\$42,136)
General Revenues				
Unrestricted interest and investment earnings				1,201
Change in net assets				(40,935)
Net assets, July 1				148,058
Net assets, June 30				<u>\$107,123</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

City of Ithaca
Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Ithaca (the City) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The City has implemented the provisions of Statement No. 34 effective July 1, 2003.

Reporting Entity

The City of Ithaca, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

City of Ithaca
Notes to Financial Statements

Discretely Presented Component Units

The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Downtown Development Authority - The Ithaca Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of eleven individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City's Council. The City is financially accountable for the Downtown Development Authority's activities.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Ithaca
Notes to Financial Statements

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

City of Ithaca
Notes to Financial Statements

Fiduciary Fund Financial Statements – Fiduciary funds account for assets held by the City as a trustee or agency capacity on behalf of others and, therefore, are not available to support City operations. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the City available to support City's operations. The City currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections and employee withholdings.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state revenue sharing revenues that are restricted for use on local streets.

The Library Fund accounts for the resources of library revenues that are restricted for the operations of the City's library.

The Economic Development Fund accounts for resources used to promote economic development of the City.

The Fire Fund accounts for resources used to provide fire services to residents of the City of Ithaca and surrounding townships.

The Gibbs Memorial Fund accounts for resources to fund special projects.

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Internal service funds account for major machinery and equipment purchases, as well as material purchases, provided to other departments of the City on a cost reimbursement basis.

City of Ithaca
Notes to Financial Statements

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Taxes

The City's property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

Although the City's 2004 ad valorem tax is levied and collectible on December 1st, 2004, it is the City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 taxable valuation of the City totaled \$49.2 million, on which ad valorem taxes levied consisted of 14.3092 mills for operating purposes and 1.476 mills for emergency service, raising \$679 thousand for operating purposes, and \$70 thousand for emergency services. These amounts are recognized in the general fund as tax revenues.

The 2004 taxable valuation of the City totaled \$55.0 million (for debt service), on which ad valorem taxes levied consisted of 4.5 mills for debt service, raising \$203 thousand for debt service. This amount is recognized in the water and sewer fund as tax revenues.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to / from other funds". Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

All trade receivables are shown as net of allowance for uncollectible amounts.

City of Ithaca
Notes to Financial Statements

Inventories

Inventories are valued at cost, on a first-in, first-out basis, for the City's business-type activities. For all other funds, the City does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was incurred or capitalized.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Operating Equipment	3 – 20
Computer Equipment	3 – 5
Vehicles	7-10
Buildings and Improvements	20-50
Land	Not Applicable – Not Depreciated

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. These compensated absences are accrued in the government-wide financial statements.

City of Ithaca
Notes to Financial Statements

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the first day of March of each year, a proposed budget for the next fiscal year is submitted to the budget officer. The budget officer compiles such information and submits it to the council, along with recommendations, no later than the second council meeting in April of each year. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following July 1st. The council holds public hearings and final budgets are adopted prior to July 1st.

Prior to July 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended).

City of Ithaca
Notes to Financial Statements

The City Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, council must approve any revisions that alter the total expenditures of any fund.

Formal budgetary integration is employed as a management control device during the year. The City does not maintain a formalized encumbrance accounting system.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as shown as negative variances, on pages 32 – 38.

NOTE 3 – DETAIL NOTES

Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorized the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City has designated six banks for the deposit of City funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in

- Bonds, securities and other obligations of the United States Government
- Certificates of deposit, savings accounts, and deposit accounts
- United States government or federal agency obligation repurchase agreements

City of Ithaca
Notes to Financial Statements

The City's deposits and investment policy are in accordance with statutory authority.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business- Type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and equivalents	\$1,193,409	\$907,846	\$12,602	\$2,113,857	\$107,123
Investments	-	-	-	-	-
Total	\$1,193,409	\$907,846	\$12,602	\$2,113,857	\$107,123

The bank balance of the primary government's deposits is \$2,101,051, of which \$318,282 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of \$107,123 of which \$107,123 is covered by federal depository insurance. Deposits which exceed FDIC insurance coverage limits are held at local banks.

City of Ithaca
Notes to Financial Statements

Receivables

Receivables as of year-end for the City's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Library Fund	Fire Operating Fund	Non-Major and other funds	Total
Accounts	\$6,312	\$-	\$1,687	\$-	\$-	\$-	\$7,999
Sale of Westwind Estates	17,600	-	-	-	-	-	17,600
Intergovernmental	60,172	35,287	9,945	3,781	2,357	862	112,404
Water and Sewer Billings	-	-	-	-	-	132,965	132,965
Equipment Rental Billings	-	-	-	-	-	23,506	23,506
Total	\$84,084	\$35,287	\$11,632	\$3,781	\$2,357	\$157,333	\$294,474

Additionally, the economic development fund reports \$178,300 of notes receivable as of June 30th.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of deferred revenue are as follows:

	Unavailable	Unearned
Note receivable	\$178,300	\$-

Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$1,000	\$-
Agency	-	1,000
Local Street	4,549	-
Major Street	-	4,549
Gibbs Memorial	15,489	-
First Responder	-	15,489
Totals	\$21,038	\$21,038

City of Ithaca
Notes to Financial Statements

Transfers between funds during the year were as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Fire Operating	General	\$46,562
Cemetery Operating		10,900
First Responder		25,978
Cemetery Sinking		3,000
Material		8,000
Sub-total		94,440
Local Street	Major Street	50,133
Cemetery Operating	Cemetery Perpetual Care	452
	Cemetery Sinking	32,950
Sub-total		33,402
First Responder	Fire / Rescue Sinking	10,506
Fire / Rescue Sinking	Fire Operating	25,000
	First Responder	5,000
Sub-total		30,000
Total Interfund Transfers		\$218,481

Transfers are used to provide resources from unrestricted general fund revenues to finance various programs accounted for in other funds, in accordance with budgetary authorizations. In addition, the major street fund is allowed under Act 51 to share a portion of its gas and weight tax revenues with the local street fund. The cemetery fund transfers are used to provide resources for cemetery operations. The first responder / fire and rescue sinking fund transfers are used to provide resources for fire operations and debt service payments.

City of Ithaca
Notes to Financial Statements

Capital Assets

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Land	\$144,758	\$-	\$-	\$144,758
Buildings	1,597,901	-	-	1,597,901
Equipment and Vehicles	2,695,435	191,416	73,036	2,813,815
Subtotal	4,438,094	191,416	73,035	4,556,474
Less Accumulated Depreciation	2,822,145	197,849	66,800	2,953,194
Net Capital Assets Being Depreciated	1,471,191			1,458,522
Governmental Activities Total Capital Assets – Net of Depreciation	\$1,615,949			\$1,603,280

	Beginning Balance	Increases	Decreases	Ending Balance
Business Type Activities				
Land	\$14,432	\$-	\$-	\$14,432
Water & Sewer System	4,547,811	1,591,208	-	6,139,019
Subtotal	4,562,243	1,591,208	-	6,153,451
Less Accumulated Depreciation				
Water & Sewer System	1,727,777	101,849	-	1,829,626
Net Capital Assets Being Depreciated	2,820,034			4,309,393
Business-Type Activities Total Capital Assets – Net of Depreciation	\$2,834,466			\$4,323,825

City of Ithaca
Notes to Financial Statements

Capital assets not being depreciated include land. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$69,580
Public Safety	36,920
Recreation and Culture	35,499
Total Governmental Activities	141,999
Business-Type Activities	
Water and Sewer	101,849
Total Business-Type Activities	101,118

The City is considered a "Phase 3" Government, as defined by GASB 34. Accordingly, the City has elected to not retroactively apply the reporting of major general infrastructure assets.

Long-Term Debt

The City's long-term debt as of June 30, 2005 is as follows:

Compensated Absences - City policy allows employees to accumulate vacation at the rate of ½ day per month for the first 4 years of service and 1 day per month, thereafter. Additional days of vacation are awarded on the employee's anniversary date after 4, 8, 12, 16, 19 and 20 years of service. Amounts accumulated up to a maximum of 25 days for city employees, and 42 days for police officers, are to be paid to the employee and recognized as an expense either when vacations are taken or upon termination of employment. Vacation pay liability at June 30, 2005 and 2004 was \$36,930 and \$37,935, respectively.

City policy allows employees to accumulate one sick leave day per month with a maximum accumulation of 60 days. Sick leave expenses are recognized at the time the days are used, or upon termination of employment. Upon termination of employment, with the exception of gross misconduct, 100% or 50% of accumulated sick pay will be paid to the employee, depending on their date of hire. Sick leave pay liability at June 30, 2005 and 2004 was \$63,134 and \$70,255, respectively.

City of Ithaca
Notes to Financial Statements

Note Payable - Note Payable, due in annual installments of \$16,909 through October 2008. Interest is at 4.46% per annum. As of June 30, 2005 and 2004, the balance of this note payable is \$61,588 and \$75,027, respectively.

Debt balances and transactions for the year ended June 30, 2005 are as follows for this note payable:

	Balance 6-1-2004	Additions	Retirements	Balance 6-30-2005	Due Within One Year
Fire Truck Note Payable	\$75,027	\$-	\$(13,439)	\$61,588	\$14,835

Enterprise Fund Bonds

Bonds payable at June 30, 2005 consist of the \$1,710,000 Water Supply and Sewage Disposal Refunding Bonds due in annual installments of \$170,000 to \$210,000 through November 2005. Interest is at annual rates of 4.7% to 4.75%. The bond proceeds were used to improve and extend the City's Water and Wastewater System.

Debt balances and transactions for the year ended June 30, 2005 are as follows for the enterprise fund bonds:

	Balance 6-1-2004	Additions	Retirements	Balance 6-30-2005	Due Within One Year
Refunding Bonds	\$405,000	\$-	\$(205,000)	\$200,000	\$200,000
Deferred Amount on Refunding	(23,023)	-	15,348	(7,675)	(7,675)
Total	\$381,977	\$-	\$(189,652)	\$192,325	\$192,325

Refunding of Debt

On December 18, 1996, the City advance refunded the 1986 Water Supply and Sewage Disposal bonds. An accounting loss of \$138,146 was recorded as a deferred asset because the principal of refunding bonds is greater than that of the refunded bonds. The deferred asset will be amortized as interest expense over the remaining life of the bond, which amounts to \$15,350 per year, for a total of 9 years.

City of Ithaca
Notes to Financial Statements

Annual debt service requirements to maturity for the above note payable and enterprise fund bonds are as follows:

Year Ended June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$14,835	\$2,074	\$200,000	\$4,750
2007	14,936	1,973	-	-
2008	15,603	1,306	-	-
2009	16,214	695	-	-
2010	-	-	-	-
Total	\$61,588	\$6,048	\$200,000	\$4,750

Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Employee Retirement and Benefit Systems

Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all of the City's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2004. The City's payroll for the employees covered by the system for the year ended December 31, 2004 was \$627,143.

City of Ithaca
Notes to Financial Statements

As of December 31, 2004, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	9
Active plan participants – vested	18
Vested former members	3
Total	30

Funding Policy

Under the provisions of this plan, members contribute between 3% and 5% of annual compensation. If a member leaves the municipality, or dies, without a retirement allowance or other benefit payable on his / her account, his / her accumulated contributions will be refunded to him / her, if living, or to his / her nominated beneficiary.

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides non-duty disability and death benefits to members after vesting requirements are met.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

City of Ithaca
Notes to Financial Statements

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2004, the assets were less than the pension benefit obligation by \$567,160, determined as follows:

GASB 25 Information	
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$982,999
Terminated employees not yet receiving benefits	82,502
Current Employees:	
Accumulated employee contributions including allocated investment income	491,529
Employer financed	1,519,327
Total actuarial accrued liability	3,076,357
Net assets available for benefits at actuarial value (market = \$2,449,275)	2,509,197
Unfunded actuarial accrued liability	\$567,160
GASB 27 Information	
Fiscal Year Beginning	July 1, 2006
Annual Required Contribution (ARC)	\$63,420
Amortization factor used – under-funded liabilities (30 years)	.053632

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UAAL as a Percentage of Covered payroll
12-31-02	\$2,216,672	\$2,845,896	\$(629,224)	78%	\$536,132	117%
12-31-03	2,351,314	2,925,371	(574,057)	80%	584,822	98%
12-31-04	2,509,197	3,076,357	(567,160)	82%	627,143	91%

City of Ithaca
Notes to Financial Statements

Capital Contributions

During the 2005 fiscal year, the City entered into a contract with the Michigan Department of Transportation for the replacement of water infrastructure along business route highway US-127. The total cost of this project was \$1,577,632 of which this City was financially obligated for \$15,776, or 1% of the project cost. The difference of \$1,561,856 has been recognized as contributed capital by the Michigan Department of Transportation, in the water and sewer fund.

REQUIRED SUPPLEMENTARY INFORMATION

City of Ithaca
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes and penalties	\$767,109	\$767,109	\$784,974	\$17,865
Licenses and permits	41,100	41,100	40,463	(637)
State grants	344,318	382,026	379,304	(2,722)
Interest and rentals	9,900	9,900	15,678	5,778
Other revenues	34,500	66,100	123,003	56,903
Total revenues	1,196,927	1,266,235	1,343,422	77,187
Expenditures				
Current				
General government	603,402	620,637	613,711	6,926
Public safety	297,400	296,340	317,567	(21,227)
Public works	83,300	83,300	61,008	22,292
Recreation and cultural	96,531	96,531	111,480	(14,949)
Other	-	-	641	(641)
Capital outlay	17,182	61,782	59,065	2,717
Total expenditures	1,097,815	1,158,590	1,163,472	(4,882)
Excess of revenues over (under) expenditures	99,112	107,645	179,950	72,305
Other financing sources (uses)				
Transfers out	(92,896)	(92,896)	(94,440)	(1,544)
Total other financing sources (uses)	(92,896)	(92,896)	(94,440)	(1,544)
Excess of revenues and other sources over (under) expenditures and other uses	6,216	14,749	85,510	70,761
Fund Balance, July 1	264,909	264,909	264,909	-
Fund Balance, June 30	<u>\$271,125</u>	<u>\$279,658</u>	<u>\$350,419</u>	<u>\$70,761</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Major Street Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State grants	\$216,210	\$216,210	\$225,525	\$9,315
Interest and rentals	500	500	2,206	1,706
Total revenues	216,710	216,710	227,731	11,021
Expenditures				
Current				
Public works	178,859	178,859	157,885	20,974
Total expenditures	178,859	178,859	157,885	20,974
Excess of revenues over (under) expenditures	37,851	37,851	69,846	31,995
Other financing sources (uses)				
Transfers out	(68,004)	(68,004)	(50,133)	17,871
Total other financing sources (uses)	(68,004)	(68,004)	(50,133)	17,871
Excess of revenues and other sources over (under) expenditures and other uses	(30,153)	(30,153)	19,713	49,866
Fund Balance, July 1	155,379	155,379	155,379	-
Fund Balance, June 30	\$125,226	\$125,226	\$175,092	\$49,866

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Local Street Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State grants	\$60,900	\$60,900	\$61,471	\$571
Interest and rentals	-	-	456	456
Other revenues	-	-	2,183	2,183
Total revenues	60,900	60,900	64,110	3,210
Expenditures				
Current				
Public works	174,127	174,127	155,290	18,837
Total expenditures	174,127	174,127	155,290	18,837
Excess of revenues over (under) expenditures	(113,227)	(113,227)	(91,180)	22,047
Other financing sources (uses)				
Transfers in	68,004	68,004	50,133	(17,871)
Total other financing sources (uses)	68,004	68,004	50,133	(17,871)
Excess of revenues and other sources over (under) expenditures and other uses	(45,223)	(45,223)	(41,047)	4,176
Fund Balance, July 1	70,470	70,470	70,470	-
Fund Balance, June 30	<u>\$25,247</u>	<u>\$25,247</u>	<u>\$29,423</u>	<u>\$4,176</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Library Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State sources	-	-	\$7,558	\$7,558
Charges for services	\$1,200	\$1,200	2,251	1,051
Fines and forfeits	114,000	114,000	126,868	12,868
Interest and rentals	8,000	8,000	5,527	(2,473)
Other revenues	4,000	4,000	4,086	86
Total revenues	127,200	127,200	146,290	19,090
Expenditures				
Current				
Recreation and cultural	166,850	166,850	185,067	(18,217)
Capital outlay	-	-	-	-
Total expenditures	166,850	166,850	185,067	(18,217)
Excess of revenues over (under) expenditures	(39,650)	(39,650)	(38,777)	873
Fund Balance, July 1	165,698	165,698	165,698	-
Fund Balance, June 30	\$126,048	\$126,048	\$126,921	\$873

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Economic Development Fund
 For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest and rentals	\$300	\$300	\$153	(\$147)
Other revenues	<u>6,600</u>	<u>6,600</u>	<u>6,600</u>	<u>-</u>
Total revenues	6,900	6,900	6,753	(147)
Expenditures				
Current				
General government	-	1,628	1,628	-
Capital outlay	<u>-</u>	<u>13,843</u>	<u>13,842</u>	<u>1</u>
Total expenditures	<u>-</u>	<u>15,471</u>	<u>15,470</u>	<u>1</u>
Excess of revenues over (under) expenditures	6,900	(8,571)	(8,717)	(146)
Fund Balance, July 1	<u>40,161</u>	<u>40,161</u>	<u>40,161</u>	<u>-</u>
Fund Balance, June 30	<u><u>\$47,061</u></u>	<u><u>\$31,590</u></u>	<u><u>\$31,444</u></u>	<u><u>(\$146)</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Fire Operating Fund
 For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$77,928	\$77,928	\$77,928	-
Interest and rentals	-	-	1,542	\$1,542
Other revenues	-	-	6,164	6,164
Total revenues	77,928	77,928	85,634	7,706
Expenditures				
Current				
Public safety	99,490	99,490	100,673	(1,183)
Total expenditures	99,490	99,490	100,673	(1,183)
Excess of revenues over (under) expenditures	(21,562)	(21,562)	(15,039)	6,523
Other financing sources (uses)				
Transfers in	46,562	46,562	46,562	-
Transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing sources (uses)	21,562	21,562	21,562	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	6,523	6,523
Fund Balance, July 1	45,352	45,352	45,352	-
Fund Balance, June 30	<u>\$45,352</u>	<u>\$45,352</u>	<u>\$51,875</u>	<u>\$6,523</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca
 Budgetary Comparison Schedule for the Gibbs Memorial Fund
 For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest and rentals	<u>-</u>	<u>-</u>	<u>\$2,583</u>	<u>\$2,583</u>
Total revenues	<u>-</u>	<u>-</u>	<u>2,583</u>	<u>2,583</u>
Expenditures				
Current				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>2,583</u>	<u>2,583</u>
Fund Balance, July 1	<u>\$224,885</u>	<u>\$224,885</u>	<u>224,885</u>	<u>-</u>
Fund Balance, June 30	<u><u>\$224,885</u></u>	<u><u>\$224,885</u></u>	<u><u>\$227,468</u></u>	<u><u>\$2,583</u></u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTARY INFORMATION

City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2005

SPECIAL REVENUE FUNDS

	Cemetery Operating	First Responder	Cemetery Sinking	Fire & Rescue Sinking	Crime Prevention	Crime Victim's Rights
Assets						
Cash and cash equivalents	\$5,309	\$37,855	\$35,533	\$42,960	\$227	\$125
Investments	-	-	-	-	-	-
Due from other governments	-	862	-	-	-	-
Total assets	\$5,309	\$38,717	\$35,533	\$42,960	\$227	\$125
Liabilities and fund equity						
Accounts payable	\$2,837	\$1,135	-	-	-	-
Accrued liabilities	1,125	-	-	-	-	-
Due to other funds	-	15,489	-	-	-	-
Total liabilities	3,962	16,624	-	-	-	-
Fund balance						
Unreserved, undesignated	1,347	22,093	35,533	\$42,960	\$227	\$125
Total fund equity	1,347	22,093	35,533	42,960	227	125
Total liabilities and fund equity	\$5,309	\$38,717	\$35,533	\$42,960	\$227	\$125

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2005

	SPECIAL REVENUE FUNDS					Permanent Fund	Totals
	Drug Law Enforcement	Police Education & Training	Girl Scout Tree Memorial	Woodland Park Enhancement	Cemetery Perpetual Care		
Assets							
Cash and cash equivalents	\$1,120	\$4,311	\$499	\$3,498	\$22,899		\$154,336
Investments	-	-	-	-	-		862
Due from other governments	-	-	-	-	-		
Total assets	\$1,120	\$4,311	\$499	\$3,498	\$22,899		\$155,198
Liabilities and fund equity							
Accounts payable	-	-	\$499	-	-		\$4,471
Accrued liabilities	-	-	-	-	-		1,125
Due to other funds	-	-	-	-	-		15,489
Total liabilities	-	-	499	-	-		21,085
Fund balance							
Reserved for perpetual care	\$1,120	\$4,311	-	\$3,498	\$22,899		22,899
Unreserved, undesignated					-		111,214
Total fund equity	1,120	4,311	-	3,498	22,899		134,113
Total liabilities and fund equity	\$1,120	\$4,311	\$499	\$3,498	\$22,899		\$155,198

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2005

	SPECIAL REVENUE FUNDS					
	Cemetery Operating	First Responder	Cemetery Sinking	Fire & Rescue Sinking	Crime Prevention	Crime Victim's Rights
Revenues						
Federal grants	-	-	-	-	-	-
State grants	-	-	-	-	-	-
Charges for services	\$11,079	\$27,538	\$7,867	-	-	-
Interest and rentals	273	790	1,207	\$107	-	-
Other revenues	-	5,430	-	-	-	-
Total revenues	11,352	33,758	9,074	107	-	-
Expenditures						
Current						
General government	60,218	-	11	-	-	-
Public safety	-	43,499	-	-	-	-
Capital outlay	-	38,479	-	-	-	-
Debt service	-	-	-	16,909	-	-
Total expenditures	60,218	81,978	11	16,909	-	-
Excess of revenues over (under) expenditures	(48,866)	(48,220)	9,063	(16,802)	-	-
Other financing sources (uses)						
Transfers in	44,302	36,484	3,000	30,000	-	-
Transfers out	-	(5,000)	(32,950)	(10,506)	-	-
Total other financing sources (uses)	44,302	31,484	(29,950)	19,494	-	-
Excess of revenues and other sources over (under) expenditures and other uses	(4,564)	(16,736)	(20,887)	2,692	-	-
Fund Balance, July 1	5,911	38,829	56,420	40,268	\$227	\$125
Fund Balance, June 30	\$1,347	\$22,093	\$35,533	\$42,960	\$227	\$125

The notes to the financial statements are an integral part of this statement.

City of Ithaca
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2005

	SPECIAL REVENUE FUNDS					Permanent Fund	
	Drug Law Enforcement	Police Education & Training	Girl Scout Tree Memorial	Woodland Park Enhancement	Cemetery Perpetual Care	Totals	
Revenues							
Federal grants	-	-	-	-	-	-	-
State grants	-	\$585	-	-	-	\$585	\$585
Charges for services	-	-	-	-	-	46,484	46,484
Interest and rentals	-	-	-	-	\$452	2,829	2,829
Other revenues	-	-	-	-	393	5,823	5,823
Total revenues	-	585	-	-	845	55,721	55,721
Expenditures							
Current							
General government	-	-	\$499	-	-	60,728	60,728
Public safety	-	-	-	-	-	43,499	43,499
Capital outlay	-	-	-	-	-	38,479	38,479
Debt service	-	-	-	-	-	16,909	16,909
Total expenditures	-	-	499	-	-	159,615	159,615
Excess of revenues over (under) expenditures	-	585	(499)	-	845	(103,894)	(103,894)
Other financing sources (uses)							
Transfers in	-	-	-	-	-	113,786	113,786
Transfers out	-	-	-	-	(452)	(48,908)	(48,908)
Total other financing sources (uses)	-	-	-	-	(452)	64,878	64,878
Excess of revenues and other sources over (under) expenditures and other uses	-	585	(499)	-	393	(39,016)	(39,016)
Fund Balance, July 1	\$1,120	3,726	499	3,498	22,506	173,129	173,129
Fund Balance, June 30	\$1,120	\$4,311	-	\$3,498	\$22,899	\$134,113	\$134,113

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

City Council
City of Ithaca
Ithaca, Michigan

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City, in a separate letter dated August 24, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, management, and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

August 24, 2005



Management Letter

City of Ithaca
Ithaca, Michigan

In planning and performing our audit of the financial statements of the City of Ithaca for the fiscal year ended June 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated August 24, 2005 on the financial statements of the City of Ithaca.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

August 24, 2005

Status of Prior Year Comments

We are pleased to announce that Management has implemented our prior year management comments.

Current Year Comments

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

The effective date for the City to implement this new standard is for periods beginning after December 15, 2008. However, earlier application is encouraged by the GASB.

GASB Statement No. 47

Governmental Accounting Standards Board Statement No. 47, *Accounting for Termination Benefits*, is the GASB's newest pronouncement. Issued in late June, it provides guidance on accounting for all termination benefits – both voluntary and involuntary.

Termination benefits can include cash payments, enhanced pension or postemployment healthcare benefits, severance benefits, continuation of life and health insurance coverage (including those provided under the Consolidated Omnibus Budget Reconciliation Act or COBRA), and job placement assistance. Unemployment compensation is excluded from the scope of the standard.

Governments are required to recognize voluntary termination benefit costs when the employee accepts the offer and the cost can be estimated. The estimated must be updated and changes (up or down) recognized as of the end of each year thereafter.

The effective date for the City to implement this new standard is for periods beginning after June 15, 2005.